

# Russian Aggression on Ukraine: Resilient Government and Adaptive Business



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**T**he full-scale war that Russia waged against Ukraine has drastically impacted the situation in Ukraine. Many Ukrainians were forced to flee the country and seek safer regions or countries: according to estimates, about 8 million became refugees, while around 5 million are internally displaced people (IDPs). Real GDP dropped by 29% in 2022 due to temporary occupation of part of the territory, broken supply chains, problems with logistics, and a decline in consumption and investment demand.

From the first day of the full-scale invasion, Ukraine's government was fully operational, negotiating support from international partners and approving the decisions to increase the resilience of the country. The behavior of businesses changed as companies had to work and make decisions in extraordinary conditions, where missiles and drone attacks by Russians are a greater obstacle to business activity than, for example, corruption.

### **THE GOVERNMENT REMAINED IN PLACE EVERY DAY DURING THE WAR**

The government (in a broad sense of the definition) in Ukraine has remained in place and operational from the first day of the full-scale invasion on February 24, 2022. The government's key objectives since that date aimed to ensure the financing of defense and security, as well as negotiate with international partners for larger military, financial, and humanitarian assistance. Apart from those, while characterizing government policies, the following tasks can be defined:

- support of vulnerable groups of the population through timely and full social payments and wages;

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IN MARCH 2022, THE UKRAINIAN GOVERNMENT INTRODUCED A ONE-TIME PAYMENT OF UAH 6,500 FOR ALL DISPLACED INDIVIDUALS WHO REGISTERED FOR THE PAYMENT THROUGH THE ELECTRONIC APPLICATION DIIA

- support of businesses through tax exemptions, improved logistics, relocation programs, and discounted credits;
- facilitating public services through digitalization;
- implementing emergency projects (especially in the energy sector) to improve access to electricity after Russia destroyed or damaged an enormous share of energy infrastructure.

### ***WAGES AND SOCIAL PAYMENTS***

Already in the first days of the full-scale invasion, the government tried to ensure the evacuation of people from the territories

which were at risk of occupation or under constant missile attacks. There were numerous trains coming from the south and east of Ukraine to the center and west of the country. Local budgets were allowed to use their funds on humanitarian assistance to internally displaced people, as well as for organizing shelters.

In March 2022, the Ukrainian government introduced a one-time payment of UAH 6,500 for all displaced individuals who registered for the payment through the electronic application Diia. The registered IDPs received UAH 2,000 per adult and UAH 3,000 per child and disabled person. However, only IDPs from territories defined in the list of the Ministry of Reintegration were granted the payment. Moreover, it approved the decision to index pensions as it was planned before. The government also continued paying wages to civil servants and budget sector employees (e.g., in education and healthcare). Such an approach aimed to restrict a further increase in poverty – which still reached 25%, according to the estimate by the World Bank in February 2023<sup>1</sup>.

To ensure better access of Ukrainians to public services, digitalization was used as a tool. Individuals were granted the right to register as IDPs or unemployed online through the Diia application. Moreover, now, they can apply for housing and utility subsidies also online.

In the summer of 2023, the government launched the eVidnovlennia (*electronic recovery*) program, which provides individuals with compensation of up to UAH 200,000 for the damaged housing be-



## THE FIRST POLICY STEPS TO AID BUSINESS IN UKRAINE WERE RELATED TO THE INTRODUCTION OF TAX EXEMPTIONS AND A MORATORIUM ON TAX INSPECTIONS

cause of Russian missile and drone attacks. Larger scale damages will be compensated later as the procedures are not yet finalized, and the money for the payment is still in shortage.

### ***BUSINESS SUPPORT***

The first policy steps to aid business in Ukraine were related to the introduction of tax exemptions and a moratorium on tax inspections. Therefore, businesses of any type received the possibility to enjoy a 2% unified tax (which substituted VAT and CPT) at the simplified taxation scheme (STS). Micro-private entrepreneurs on the simplified taxation system that provided services or sold goods primarily to households were exempt from the obligation to pay unified tax<sup>2</sup>. A zero VAT rate on imports was

<sup>1</sup> World Bank (2023) *Ukraine: Rapid Damage and Needs Assessment: February 2022–February 2023*. Available [online]: <https://documents1.worldbank.org/curated/en/099184503212328877/pdf/P1801740d1177f-03c0ab180057556615497.pdf>

<sup>2</sup> Unified tax is applicable to individual entrepreneurs working on simplified taxation. It in fact substitutes the number of taxes that exist on general taxation system.

imposed as well. Such decisions were approved based on the assumption that the war would not last long, and, as it turned out to be wrong, the tax exemptions have been reversed. Since July 2022, the zero import VAT rate has been canceled, while the 2% unified tax was canceled in August 2023.

After Russia destroyed or heavily damaged the oil refineries and fuel storage in Ukraine, the government reduced the VAT rate to 7% (instead of 20%) and introduced a zero-excise rate on fuel. Excises were partially restored in October 2022. Since July 2023, the 20% VAT and full excise rate have been re-introduced.

Needless to say, Russia's missile and drone attacks in autumn of 2022 destroyed or damaged a large share of energy infrastructure and caused the blackout in Ukraine in November. As a result, the government introduced VAT exemptions for importing energy generators, batteries, and other similar appliances to help businesses and the population survive through the winter. Such exemptions existed until May 2023.

Considering the fact that one of the largest impediments to business operations was the danger to work, in 2022, the Ukrainian

government ran a state program of relocation for companies to safer regions, which was aimed to alleviate the costs of transportation. Indeed, about 800 companies relocated within this program. Moreover, the subsidized job program for hiring IDPs was also introduced.

Logistics has been a major issue for many large companies in Ukraine as traditional routes for freight transportation were broken. Therefore, much effort was put into ensuring better logistics – especially for exports. For railway freight transportation, there is a problem with low capacity to increase transportation in neighboring countries. The government introduced electronic queues (e-Cherha) to facilitate freight transportation by trucks, which regulates the order of cars passing the customs control on the border. Reached in the summer of 2022, the Grain Initiative was a success, as it allowed exports of grain through three Odesa Sea ports. However, already in July 2023, Russia deliberately stopped the Grain Initiative and heavily bombed the port infrastructure in Odesa.

Meanwhile, the government expanded the program of subsidized loans '5-7-9%' to cover operational costs. Large companies were also given the possibility of receiving loans through the program, which was initially designed for small and medium companies. In 2023, the program was partially streamlined to concentrate more on investment projects. It is likely to focus again only on Small and Medium Enterprises (SMEs) later in the year 2023. To support financial businesses, small grants were also introduced for micro-businesses as well as for agricultural companies<sup>3</sup>.



LOGISTICS HAS  
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LARGE COMPANIES  
IN UKRAINE

<sup>3</sup> See: <https://suspilne.media/252557-urad-vprovadzuetri-granti-dla-biznesu-ak-podatisa-ta-hto-moze-prenduvati-na-grosi/> [in Ukrainian]



## OVERALL, THE POLICIES OF THE NATIONAL BANK OF UKRAINE (NBU) BEFORE THE FULL-SCALE WAR AND DURING 2022 HELPED MAIN- TAIN THE BANKING SECTOR'S STABILITY

### **FINANCIAL STABILITY**

Overall, the policies of the National Bank of Ukraine (NBU) before the full-scale war and during 2022 helped maintain the banking sector's stability. Already on 24-25 February 2022, the NBU immediately imposed FX controls, restricting the purchases of foreign currency and its transfer abroad. At the same time, the hryvnia exchange rate was fixed. Good communication with banks and the population helped to keep the market stable.

The National Bank of Ukraine also provided banks with refinancing loans for several months to support their liquidity. Later, in June 2022, the NBU picked the key rate by 15 p.p. to 25% per annum to restrict inflation and later devalued hryvnia as the official rate was much stronger than the market one. In June, the NBU approved the *Strategy to Ease FX Restrictions, Transition to Greater Flexibility of the Exchange Rate, and Return to Inflation Targeting*, which

was one of the structural benchmarks of the IMF program.

### **FINANCING**

In the first months of the full-scale invasion, the Ukrainian government financed its liabilities largely at the expense of the direct financing of the NBU, which was voted to become possible in the first days of the war (but is forbidden during peacetime)<sup>4</sup>. Overall, in 2022, the NBU purchased the government domestic bonds directly at the amount of UAH 400 billion (equivalent of USD 12.5 billion), mostly in the first half of the full-scale war<sup>5</sup>. Direct NBU financing is not used in 2023 to cover the fiscal gap. The placement of domestic government bonds added up to total gross financing in the equivalent of USD 7.7 billion.

It is important to mention that social payments and wages in the second half of 2022 and in 2023 have been predominantly financed at the expense of international assistance received through grants or concessional loans. Total financing received in 2022 in the form of international grants and concessional lending reached USD 32 billion in 2022 and USD 23.6 billion in 2023 (as of July 21, 2023)<sup>6</sup>. The United States and the European Union are leading this assistance, but with different approaches. The U.S. aids Ukraine with grants, whereas the EU provides concessional loans for long maturity with no interest if Ukraine fulfills all conditions. In June 2023, the European Commission initiated the EUR 50 billion Ukraine Facility to be provided to Ukraine

<sup>4</sup> CMU resolution is available at: <https://zakon.rada.gov.ua/laws/show/156-2022-%D0%BF#Text> [in Ukrainian]

<sup>5</sup> Budget financing in 2022 is available at the site of the Ministry of Finance of Ukraine: [https://www.mof.gov.ua/storage/files/Financing\\_en\\_30\\_12\\_22\\_corrected.pdf](https://www.mof.gov.ua/storage/files/Financing_en_30_12_22_corrected.pdf)

<sup>6</sup> Budget financing in 2023 is available at the site of the Ministry of Finance of Ukraine: [https://www.mof.gov.ua/storage/files/23-07-21%20W29%20Foreign\\_Financing%20\(website\)%20EN.jpg](https://www.mof.gov.ua/storage/files/23-07-21%20W29%20Foreign_Financing%20(website)%20EN.jpg)

during the next four years – under the condition that Ukraine meets the list of conditionalities.<sup>7</sup>

Still, at the beginning of the full-scale invasion, the first substantial financial support was provided in March 2022 by the IMF within the Rapid Financing Instrument<sup>8</sup>. Later in October, the IMF provided another loan under the new food shock window of the Rapid Financing Instrument<sup>9</sup>. As the IMF policies did not allow it to provide the full-scale program to Ukraine, it first provided the Board Monitored Program, which envisaged structural benchmarks but without money provision, and later changed the policies, which enabled the Fund to provide Ukraine full-fledged 4-year EFF program at USD 15.6 billion.

The international capital markets are clearly closed for Ukraine since February 24, 2022. Therefore, the government negotiated a two-year standstill on all payments on Eurobonds since September 2022. At the same time, further steps are needed for the debt restructuring to be negotiated in 2024, which is already envisaged in the IMF memorandum.

### **THE UKRAINIAN ECONOMY IS RESISTING AND RECOVERING: WHERE DO BUSINESSES FIND THE SOURCE OF OPTIMISM IN WARTIME?**

Business optimism has remained high during all full-scale Russian military aggression periods, while the extended future remains

<sup>7</sup> European Commission (2023) Ukraine: Commission Proposes to Set Up a Dedicated Facility to Support Ukraine's Recovery, Reconstruction, and Modernization. Available [online]: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_23\\_3355](https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3355)

<sup>8</sup> <https://www.imf.org/en/News/Articles/2022/03/09/pr2269-ukraine-imf-executive-board-approves-usd-billion-in-emergency-financing-support-to-ukraine>

<sup>9</sup> <https://www.imf.org/en/News/Articles/2022/10/07/pr22343-imf-approves-emergency-financing-support-to-ukraine>



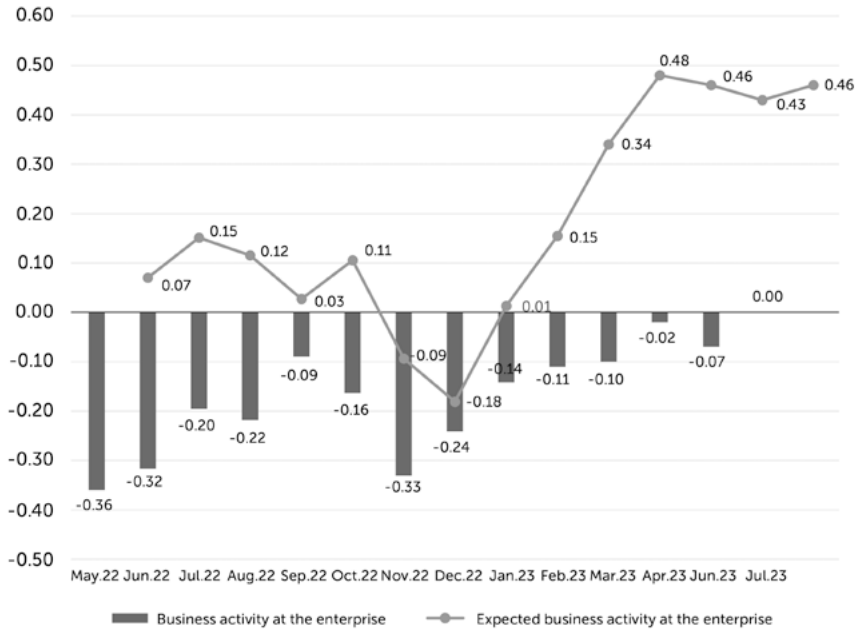
SOCIAL PAYMENTS AND WAGES IN THE SECOND HALF OF 2022 AND IN 2023 HAVE BEEN PREDOMINANTLY FINANCED AT THE EXPENSE OF INTERNATIONAL ASSISTANCE RECEIVED THROUGH GRANTS OR CONCESSIONAL LOANS

unclear. This is the main message received every month after analyzing the results of the new monthly survey of enterprises *Business in Wartime*, which the Institute of Economic Research and Political Consultations (IER) conducts every month from the 15<sup>th</sup> to the 30<sup>th</sup>. We interviewed managers of 500+ industrial enterprises of all sizes located in 22 out of 27 regions of Ukraine – several regions where the survey is conducted border directly with the battlefield<sup>10</sup>.

For example, in May 2023, against the background of escalating missile attacks, businesses continued to have an

<sup>10</sup> NRES (2022-2023) #1-14. Available [online]: [http://www.ier.com.ua/en/trade\\_facilitation/survey](http://www.ier.com.ua/en/trade_facilitation/survey)

Figure 1: Business activity at the enterprises in Ukraine



Source: IER (2023) *New Monthly Enterprises Survey: Ukrainian Business in Wartime*

Note: All indices are calculated according to a single methodology. We count responses as +1 when the company responds that the rate has increased, 0 if it has not changed, and -1 if it has decreased.

optimistic mood, although, in the long-term perspective, uncertainty increased. Therefore, for the time being, it seems that nothing can limit the optimism of Ukrainian business.

### ***THE TIMELINE OF CHANGES IN THE BEHAVIOR OF BUSINESS ENTITIES DURING WARTIME***<sup>11</sup>

In the first days of the full-scale war of Russia against Ukraine, the Government of Ukraine temporarily simplified obligatory reporting of business to the Ukrainian Statistical Service (Ukrstat). As a result,

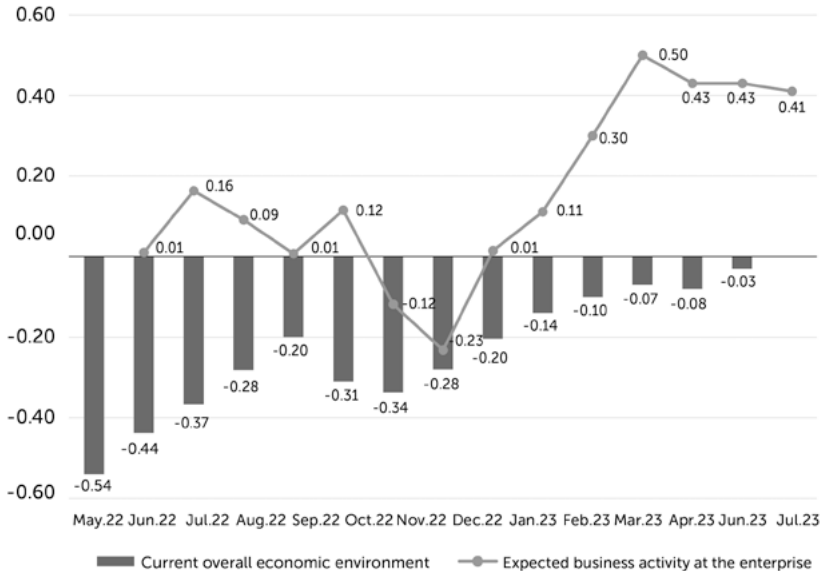
the Ukrstat stopped publishing economic data. This pushed the IER to launch New Monthly Enterprises Survey (#nres) aiming at collecting enterprises opinions to better understand the behavior of businesses.

The results of the first spring waves of #nres<sup>12</sup> in 2022 showed that Ukrainian businesses were significantly affected by the war [See: Figures 1 and 2]. One in three of the surveyed enterprises reported

<sup>11</sup> The presented data is based on the New Enterprises Survey, #nres, No. 1-14, for the years 2022-2023. See: [http://www.ier.com.ua/en/trade\\_facilitation/survey](http://www.ier.com.ua/en/trade_facilitation/survey)

<sup>12</sup> *New Monthly Enterprises Survey (#nres)* is a survey that is a part of the *Business Tendency Survey*. The Institute for Economic Research and Policy Consulting conducts the *New Monthly Enterprises Survey* to quickly collect information on the current economic state at the enterprise level. The methodology is designed to assess the situation from the 'base level': the opinions and expectations of key economic agents – such as entrepreneurs and business managers.

Figure 2: Overall economic environment in Ukraine



Source: IER (2023) *New Monthly Enterprises Survey: Ukrainian Business in Wartime*

Note: All indices are calculated according to a single methodology. We count responses as +1 when the company responds that the rate has increased, 0 if it has not changed, and -1 if it has decreased.

a reduction in production by more than half compared to pre-war times, and 10% ceased operations. Negative trends lasted at least two months, and in April the situation became worse than in March.

In addition to the decline in production, uncertainty is another significant indicator of the war's impact on Ukraine's economic situation. In May, about half of the respondents could not forecast changes in the financial and economic situation (45.0%) and the general economic situation (47.7%). The share of respondents who could not give a forecast for the future of 1-2 months regarding changes in key production and financial indicators varies depending on the indicator from 14.7% (number of employees) to 27.8% (receivables).

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FURTHER STEPS  
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MEMORANDUM





## DUE TO THE RUSSIAN ATTACK ON CIVIC INFRASTRUCTURE, INCLUDING ELECTRO-POWER PLANTS, ENTERPRISES TEMPORARILY SUSPENDED WORK DUE TO POWER OUTAGES

At the same time, against the background of uncertainty, business in Ukraine had quite positive expectations. Thus, **in May 2022**, the share of enterprises where production growth is planned exceeded the share of those where production volumes were expected to decrease (32.2% and 17.9%, respectively).

Already **in June**, business adapted to work in war conditions, in the **summer months**, against the background of a gradual decrease in the level of uncertainty, both in the medium and short term, business production expectations improve. A decrease in the rate of expected reduction in output and employment was recorded, and the share of enterprises increasing the use of their own production capacities was growing.

**In August 2022**, the production recovery in Ukraine continued, but the dynamics of indicators of the economic situation indicated **a slowdown in positive trends**. The main reasons for such expectations were the continuation of the active phase of the war and the postponement of victory, the devaluation of the hryvnia that took place in August, and the uncertainty about the duration of the simplified tax regimes introduced at the time of martial law.

**In September 2022**, against the backdrop of a successful counteroffensive by the Ukrainian armed forces, there was significant improvement in expectations and assessments of the economic situation and business climate. All indicators improved. Uncertainty remained high, but two opposing trends existed in different forecasting horizons. Uncertainty in the long term grew, and in the three-month perspective, it became easier for entrepreneurs to forecast their activities.

**In October 2022, Russian missile terror significantly affected the overall economic situation.** The importance of electricity problems as an obstacle increased 13 times (!) and took the 2<sup>nd</sup> position in the ranking of obstacles. Production plans and expectations for all performance indicators of enterprises for 3 and 6 months deteriorated, but long-term plans remained unchanged.

**In November and December 2022**, businesses continued to feel the impact of Russian missile terror, but adapted to work in such conditions. The trend of deterioration of half-year expectations of the general economic situation and the situation at the enterprise level stopped. Production expectations improved in the short term.

Due to the Russian attack on civic infrastructure, including electro-power plants, enterprises temporarily suspended work

due to **power outages**, but most of the surveyed enterprises informed that they provided themselves with independent power sources. The average time when enterprise did not work due to power outages was 21% and 23% of working hours in November and December 2022.

Business optimism improved in January 2023, a year after the last pre-war month. Business plans for the next two years remained **optimistic**, while **uncertainty increased** in the long-term.

**In February 2023**, despite the high level of long-term uncertainty, assessments and expectations of enterprises are improving significantly. In particular, enterprises' expectations of changes in the financial and economic situation in the half-year perspective have increased rapidly (the value of the corresponding index has more than doubled, from 0.15 to 0.34). At the same time, against the background of optimistic business expectations, in February, for the first time since the beginning of the war, there was an increase in difficulties in finding both skilled and unskilled workers.



ONLY IN THREE  
MANUFACTURING  
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ING) MORE THAN  
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AT FULL CAPACITY

**In March 2023**, the economic situation of enterprises improved significantly, and business leaders' optimism in the short and medium term continued to grow significantly. Assessments of the then current situation in the country and in the enterprise were improving for the fourth month in a row. Blackouts were becoming less frequent, as well as the number of missile attacks. As a result, on average, due to power outages, enterprises lost only 6% of the total volume of work in February. The importance of an approach that 'it is dangerous to work' as an obstacle to doing business continued to decrease.

**In April 2023**, enterprises showed the best results for the entire survey, and the resumption of production continued. The percentage of enterprises operating at almost full capacity and at full capacity was the highest in the last 12 months. The economic situation at enterprises in April 2023 compared to April 2022 improved significantly, and plans for the next two years remained cautiously positive.

**In May 2023**, business optimism remained quite high in the background of the military escalation, while the distant future became even more uncertain, according to respondents. With the intensification of missile attacks, the importance of 'working dangerously and power outages' as obstacles to doing business has increased somewhat.

**In June 2023**, business behavior expectations continued to change. Long-term uncertainty has increased, and the share of enterprises that were not able to answer questions about what would happen at the enterprise in two years increased from 56.5% to 60.8%. Expectations in the half-year perspective remained very optimistic, while for the first time in several months, there was a slight increase in uncertainty in

the short and medium term. At the same time, the then current situation was characterized as quite positive. The share of enterprises operating at almost full capacity and total capacity was the highest since the beginning of the war. At the same time, the physical security issues of business remained in the top 5 obstacles to business operations in wartime.

### **SECURITY IS THE MAIN FEATURE OF SUSTAINABILITY**

The first main feature of sustainability in wartime is security. The more Ukraine can protect its citizens from enemy air attacks, the more confident business is. Let us consider the following example. Rising prices for materials and raw materials, logistical problems in the middle of the country, and a decrease in demand led to the rating of obstacles to doing business in May 2023. The importance of the obstacle to work dangerously increased again after the increase in the number of missile strikes on Ukrainian cities by the Russian Federation.

The share of enterprises that chose dangerous work as an obstacle to doing business, after decreasing to 25% in April, increased again to 32% of respondents in May. Such results show that the issue of security and how Ukraine can protect its territory from terrorist missile attacks of Russia is very important for economic recovery.

### **MANUFACTURING INDUSTRIES THAT DEMONSTRATE BETTER RESILIENCE IN WARTIME UKRAINE**

Russia's invasion of Ukraine highlighted the weak points in Ukraine's manufacturing sector. The IER survey results demonstrate that selected industries have higher levels of wartime resilience [See: Figure 3]. As of June 2023, 78% of enterprises in the food industry operated at full capacity or more in comparison with the prewar period, the highest result noted among manufactur-



42% OF METALLURGY AND METALWORKING ENTERPRISES REDUCED THEIR PRODUCTION BY MORE THAN HALF

ing industries. Food production has kept recovery leadership almost in each month since the first survey wave. Alongside fulfilling domestic demand, processed food products can also be transported to international markets despite the sea blockade.

In the light industry sector, which must have also heavily benefited from domestic demand, including military, 69% of enterprises operated at full capacity or more in comparison with the prewar period. Altogether, it seems that industries that secure the basic human needs (food, clothing, among others) have been more likely to adapt to new challenges and recover high production levels. Only in three manufacturing industries (food, light, and printing) more than half of enterprises operated at full capacity.

Metallurgy and metalworking, wood processing, the chemical industry, and production of construction materials continue to lag behind, even though the situation has slightly improved in the last few months. For example, 42% of metallurgy and metalworking enterprises reduced their produc-

Figure 3: The share of industrial enterprises operating almost at full and full capacity (75 - 99%, 100% and more) compared to the prewar period, % of respondents by sector

	Jul.22	Aug.22	Sep.22	Oct.22	Nov.22	Dec.22	Jan.23	Feb.23	Mar.23	Apr.23	May.23	Jun.23
Food industry	58	61	62	62	58	63	62	66	66	73	73	78
Printing industry	57	53	61	53	75	54	33	50	58	62	60	71
Light industry	43	47	62	44	60	46	46	52	63	65	55	69
Machine building	33	33	40	32	51	33	27	46	39	43	30	47
Construction materials	11	13	39	33	29	25	14	14	15	30	38	38
Chemical industry	32	25	38	11	27	25	35	36	30	42	42	36
Wood processing	35	25	22	26	43	22	18	17	13	42	33	36
Metalworking	26	26	20	10	13	17	23	24	22	20	29	27

Source: IER (2023) *New Monthly Enterprises Survey: Ukrainian Business in Wartime*

tion by more than half. At the same time, 10% of construction material manufacturers do not operate. The pace of recovery has been less optimistic in those industries due to disrupted supply chains, power outages, sea blockade, low demand, and other issues.

Power outages, caused by Russian missile and drone attacks, hampered recovery in autumn 2022 – winter 2023. Manufacturing enterprises lost on average 21% of total working time in November, 23% in December 2022, and 15% in January 2023. The situation significantly improved in February and January when most enterprises did not experience power cuts. However, the electricity issue had disproportionate impact on enterprises of different sizes and sectors. It should be noted that the lowest average losses of working time due to power outages were usually recorded in the food industry. This phenomenon mirrors the fact that food manufacturing companies proved to be the leaders of recovery. At the same time, the highest loss was recorded in construction material manufacturing,

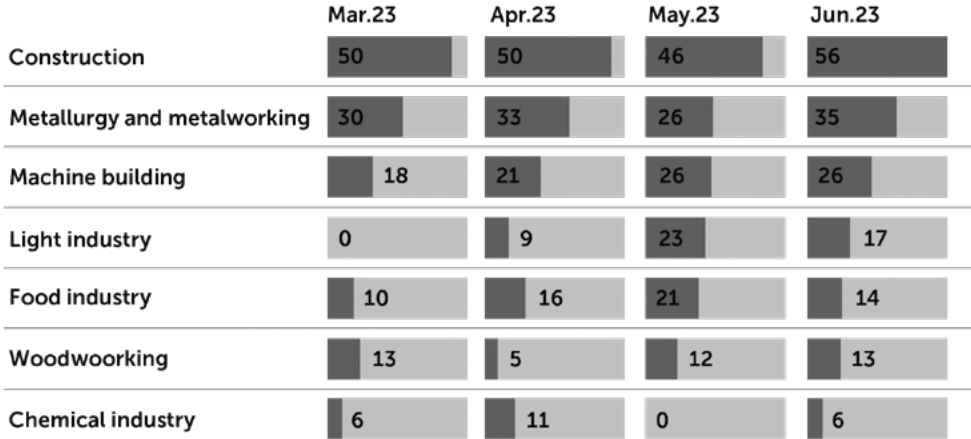
metallurgy, and metalworking, and other 'crisis-hit' industries.

Electricity outages dominated the list of impediments to business throughout the whole winter in all manufacturing industries. Only in spring 2023, businesses became more concerned about other issues. As of June 2023, more than 70% of chemical and woodworking enterprises were concerned by rising raw materials and supplies prices. The construction materials' production industry reported the highest concerns regarding logistical issues (difficulties in transporting raw materials or goods). Manufacturers of construction materials and wood processing enterprises face issues with low demand more often than others. Nevertheless, top impediments are common for all manufacturing industries.

### NEGATIVE CURRENT ASSESSMENTS BUT OPTIMISTIC EXPECTATIONS

The leadership of certain industries is reflected in assessments of the overall economic environment and business activity.

Figure 4: Share of exporters who did not export during the last 12 months, by industry (% of surveyed exporters)



Source: IER (2023) *New Monthly Enterprises Survey: Ukrainian Business in Wartime*

As of June 2023, the only positive balance index was recorded for food companies (+0.05). At the same time, assessments remain negative for all other industries. However, relatively optimistic results are also in light industry (-0.02). The worst assessments are recorded in the wood processing (-0.24) and manufacturing of construction materials (-0.31).

All surveyed industries have positive assessments of future changes in the overall economic environment. The food industry is the most optimistic, with a balance index +0.49. Positive expectations are also high in light industries (+0.38) and printing industries (+0.46). At the same time, the lowest index was recorded in the chemical industry (+0.11).

Food, light, and printing industries also demonstrate the most optimistic results regarding business activity at enterprises with positive assessments of the current situa-

tion in June 2023 (+0.09, +0.07, +0.14, respectively). However, only the food industry also demonstrated cautious optimism in the previous months. Besides, the food industry also has the best expectations regarding business activity in the future (+0.54). Altogether, assessment of the current and expected economic environment and business activity demonstrates uneven resilience of manufacturing sectors.

### HIGH RESILIENCE OF EXPORT EFFORTS DESPITE LOGISTICAL ISSUES

Based on the obtained data, it is evident that the most challenging situation regarding export recovery persists in construction material production [See: Figure 4]. For instance, 56% of enterprises in this industry engaged in exports before the war, but had no exports during the last 12 months (50% in March and April 2022, 46% in May 2022). Metallurgy and machine building also face a difficult situation, with a corresponding figure of 35%.



## DESPITE THE RECOVERY OF EXPORT ACTIVITIES, THE RECOVERY OF EXPORT VOLUME IS SLOW IN ALL INDUSTRIES

In contrast, the chemical industry shows the best performance, with only 6% of enterprises having no exports in the last 12 months. The woodworking industry follows closely, with only 13% of enterprises having no exports during the last 12 months, despite exporting before the war. Similarly, the food industry exhibits a positive outlook, with only 14% of enterprises having no exports in the last 12 months. It should be emphasized that the food industry has demonstrated the most stable export recovery.

Despite the recovery of export activities, the recovery of export volume is slow in all industries. Only in two industries, more enterprises increase export volume than decrease (chemical industry with +0.17 and food industry with +0.11). At the same time, the lowest value of the export index is in the metalworking (-0.42) and printing (-0.33) industries. The food industry also has the highest expectations, as the index of expected export changes is +0.47. Nevertheless, the agri-food sector might worsen its expectations after Russia pulled

out of the grain deal and attacked Ukraine's sea ports.

It should be noted that logistical issues are key challenges to exporters of all manufacturing industries. For example, queues at the western borders are a problem for 82% of light industry exporters and 72% of food industry exporters. The inability to export by sea is more important for representatives of machine building (61%) and the food industry (48%). Woodworking enterprises often complain about the lack of wagons/trucks/drivers (43%).

Chemical and machine-building enterprises report more often than others that it is difficult for them to reorient themselves from the CIS markets to other markets (27% and 22%, respectively). Machine-building enterprises also felt a drop in demand for products the most (56% of respondents). Thus, machine building is most affected by demand problems. At the same time, woodworking enterprises are often unable to meet demand in foreign markets (43% of respondents).

### CONCLUSIONS: WHAT SHOULD COME NEXT?

The increase in long-term uncertainty and simultaneous decreases in medium- and short-term uncertainty among Ukrainian businesses result from the adaptation of business and society to the fact that the war will last longer than we expected. This indicates the need for a clearer agenda for business in terms of the domestic economic policy of the state. Business needs to answer not only the question of 'What will we do after the victory?', but also 'What do we do now?'

Another important finding of the IER's ongoing business survey is that despite the high adaptability of businesses to work in war conditions, security has become an



## SECURITY HAS BECOME AN ESSENTIAL CHARACTERISTIC OF THE BUSINESS CLIMATE

essential characteristic of the business climate. Our results show that security issues and how Ukraine can secure its territory from terrorist missile attacks by the Russian Federation are important for economic recovery. Therefore, modern Western weapons for Ukraine are an essential factor not only militarily, but also economically.

Ukraine relies substantially on the financial support of international partners, which helps the country to keep going as of now. More financial support, as well as foreign direct investments, are needed to finance recovery and reconstruction. Both international and domestic business need war-related risk insurance to be sure they are economically protected from damages by Russian missiles and/or drones. Thus, the steps taken by the Ukrainian government, as well as international partners to make such insurance available, would be welcome.

Higher business confidence in the future also requires more certainty on economic policies in the country. Since February 2, 2022, the regulation was not really stable. The Government switched from tax exemptions, which undermined fiscal revenues, to targeted cash subsidies

to selected companies to help business develop. Future policies are to be defined in Ukraine, which the Government has started to develop in August and plans to approve in October 2023. The plan will be a key document for Ukraine facility of EUR 50 bn, which was initiated by the European Commission in June, 2023<sup>13</sup>.

<sup>13</sup> European Commission (2023) *Ukraine: Commission Proposes to Set Up a Dedicated Facility to Support Ukraine's Recovery, Reconstruction, and Modernization*. Available [online]: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_23\\_3355](https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3355)



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